MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BBF3044 – CORPORATE FINANCIAL MANAGEMENT

(All Sections/Groups)

11 MARCH 2020
9.00 a.m - 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 4 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Isha Corporation started its business in the year 2000. It is involved in the technological industry. The firm has been growing tremendously over the past several years.

In the year 2019, Isha had recorded sales of RM3,000,000, net income of RM450,000 and dividends of RM135,000. The balance sheet for the year 2019 shows a total asset of RM4,800,000 out of which RM800,000 are current assets. The current liabilities and long-term debt for the year 2019 are RM250,000 and RM1,500,000 respectively. The balance sheet for that year also shows common stocks of RM2,500,000 and retained earnings of RM550,000.

Determine the external financing needed (EFN) if Isha forecasts its sales in 2020 to be RM3,600,000. Assume Isha is operating at full capacity and its profit margin and dividend payout ratio remain constant. (10 marks)

(b) You are the financial manager of a manufacturing firm. Your company is considering a new project. The project's initial investment is estimated to be RM200,000 with zero salvage value. The life of this project is expected to be 5 years (depreciated using straight-line technique).

The project is expected to produce items that sell for RM10,000 each. The variable cost is estimated to be RM5,000 per unit while the fixed cost is forecasted to be RM250,000 per year.

In order to analyze the relationship between the sales volume and profitability of the new project, you are exploring the three break-even analysis namely the accounting break-even, the cash break-even and financial break-even. Using the data given above, determine the sales quantity for each of the three break-even measures. Assume a required return of 12% and ignore the effect of taxes.
(12 marks)

(c) Total risk can be divided into systematic risk and unsystematic risk. Beta is used to measure the systematic risk. What does a beta value of 1 implies? What does a beta value of more than 1 implies? And what does a beta value of less than 1 implies?
(3 marks)

(Total: 25 marks)

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QUESTION 2

(a) The cost of equity is the return required by equity investors given the risk of the cash flows from the firm. Identify and explain the **TWO (2)** major methods for determining the cost of equity. Identify **ONE (1)** advantage and **ONE (1)** disadvantage for each of the two methods identified earlier. (8 marks)

(b) Dividend is a payment made out of a firm's earnings to its owners in the form of either cash or stock. Dividends comes in several different types. Identify and explain the **FOUR (4)** basic types of dividends. (8 marks)

(c) JSS Corporation currently has no debt, a total market value of RM200,000 and 10,000 shares outstanding. Earnings before interest and taxes (EBIT) are projected to be RM40,000 if the economic conditions are normal. However, if there is a strong expansion in the economy, then the EBIT is expected to be 30 percent higher. Meanwhile, if there is a recession in the economy, the EBIT is expected to be 50 percent lower. JSS is considering a RM50,000 debt issue with an 8 percent interest rate. The proceeds from the issuance of debt will be used to repurchase shares of stock. Determine the change in earnings per share (EPS) during a recession compared to a normal economy. Ignore taxes. (9 marks)

(Total: 25 marks)

QUESTION 3

(a) One of the key area of financial planning is the planning horizon which can be broken into short-term and long-term financial planning. Long-term financial planning includes capital budgeting, dividend policy and financial structure. Describe what is short-term finance. Two common short-term financial policies are flexible short-term financial policy and restrictive short-term financial policy. Discuss how these two policies affect (i) the size of the firm's investment in current assets and (ii) the financing of current assets. (10 marks)

(b) CFM Corporation is considering to switch from a cash only policy to a net one-month policy. Assuming that the required return is 4 percent per month, compute the NPV of the new policy given the following information:

	Current policy	New policy
Price per unit	RM80	RM85
Cost per unit	RM30	RM30
Units sales per month	4,000	4,050

Should CFM switch to a net one-month policy?

(15 marks)

(Total: 25 marks)

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QUESTION 4

(a) Financial analysts typically classify acquisitions into three types: (i) horizontal acquisition; (ii) vertical acquisition; and (iii) conglomerate acquisition. Define each of these acquisition and provide an example for each of them. (9 marks)

(b) As a financial manager of a U.S based firm, you are considering a project in Poland which has an initial cost of 300,000PLN. The project is expected to return a one-time payment of 450,000PLN five years from now. Currently, with 1USD you can buy 3PLN. The risk-free rate of return in the U.S and in Poland are 5 percent and 4 percent respectively. Meanwhile, the inflation rate in U.S and in Poland are 4.5 percent and 3 percent respectively. Determine how much will the payment of 450,000PLN be worth in U.S. dollars five years from now. (7 marks)

(c) Identify and discuss **THREE (3)** types of exchange rate exposure. (9 marks)

(Total: 25 marks)

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